

TELCO/ICRJ/RHG

Decision _____

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**

In the Matter of the Application of CALAVERAS
TELEPHONE COMPANY U-1002-C, for an
Order authorizing it to issue notes in an amount
not exceeding \$7,006,750, and to execute a related
agreement and supplemental security
instruments.

Application 03-01-022
(Filed January 24, 2003)

OPINION

Summary

This decision grants Calaveras Telephone Company (Calaveras) the debt authority requested in Application (A.) 03-01-022 (Application), as amended.

Calaveras requests authority, pursuant to §§ 818 and 851 of the Public Utilities (Pub. Util.) Code to obtain a loan from the United States Government acting through the Administrator of the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) and to issue mortgage notes in an amount not exceeding \$7,006,750 for plant improvements. Two Amendments to Application were filed to clarify the purpose of the intended debt issue.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of January 28, 2003. The First Amendment to Application was filed on June 11, 2003, and appeared on the Commission's Daily Calendar of June 16, 2003. The Second Amendment to

Application was filed on July 18, 2003, and appeared on the Commission's Daily Calendar of July 25, 2003. No protests have been received.

The Second Amendment to Application supersedes the Amendment to Application filed on June 11, 2003, and provided supplemental information and further clarification on the purpose of the debt issue requested in the Application.

Background

Calaveras is a California corporation operating as a public utility telephone company under the jurisdiction of the Commission. Calaveras provides telephone services to portions of Calaveras County, California.

Calaveras' income statement for the year ended June 30, 2002, shown as Exhibit B to the Application presents total operating revenues of \$5,735,101 and net income of \$1,042,332. The balance sheet as of the same period, shown as part of Exhibit B is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Current Assets	\$ 2,802,107
Noncurrent Assets	1,431,410
Net Property, Plant, and Equipment	<u>7,352,676</u>
Total Assets	<u>\$11,586,193</u>
<u>Liabilities & Stockholders Equity</u>	
Current Liabilities	\$ 529,493
Long-Term Debt	1,321,164
Other Liabilities & Deferred Credits	486,807
Stockholders' Equity	<u>9,248,729</u>
Total Liabilities & Stockholders Equity	<u>\$11,586,193</u>

Description of Financing

Calaveras seeks authority to enter into a loan agreement with RUS and RTB for \$7,006,750. Calaveras has previously made long-term secured borrowings from the RUS (formerly the Rural Electrification Administration) and from the RTB. The proposed loan will be secured by previously executed mortgages and supplemental mortgages of substantially all of Calaveras' property to the RUS and the RTB, as previously authorized by the Commission, and will be subject to documentation substantially similar to that which is attached as Exhibit D to the Application, changed only in the manner, if any, required for compliance with the published rules of the U.S. Department of Agriculture.

Calaveras further proposes that it will issue a mortgage note or notes (Mortgage Notes) in substantially the same form as found also in Exhibit D to the Application, subject only to any similar required form changes, to provide for the long-term borrowing. To effect this transaction, Calaveras will execute an amendment to the existing loan agreement between it and the RUS and the RTB (Telephone Loan Contract Amendment). The terms of the Telephone Loan Contract Amendment, as mandated by federal regulations, will require Calaveras to purchase shares of Class "B" stock of the RTB¹ in the same manner as previously approved by the Commission. As set forth in the Telephone Loan Contract Amendment and the Mortgage Note, money shall be advanced to Calaveras from time to time after the execution of the Mortgage Note.

¹ Estimated amount of \$122,750.

Each advance under the Mortgage Note will bear interest at various rates, which shall be determined by terms set forth in the Mortgage Note. There is not a stated rate of interest for the RUS and the RTB's subsidized loans to telephone companies. Instead, the applicable rate of interest for advances under the RUS and RTB loans is determined on the date of each advance and is essentially equal to the U.S. Government's cost of funds. The rates so determined are generally and consistently much lower than rates available from private and commercial lenders.

Pursuant to the Telephone Loan Contract, as amended, Calaveras is obligated from time to time to execute supplemental mortgages and other security instruments in favor of Calaveras' secured lenders. Calaveras requests that it be authorized to continue to execute and deliver from time to time such supplemental mortgages and other security instruments as may be required by the terms of its Telephone Loan Contract; and to execute and deliver such Telephone Loan Contract or other extension agreements as may be required in the future to permit the further advance of funds under the Telephone Loan Contract.

The mortgage note will be repaid in amortizing monthly installment payments commencing two (2) years after execution and concluding eighteen (18) years after execution, at cost of money interest rate.

Environmental Impact

The California Environmental Quality Act (Public Resources Code Section 21000, et seq., hereafter "CEQA") applies to discretionary projects to be carried out or approved by public agencies. A basic purpose of CEQA is to inform governmental decision-makers and the public about the potential, significant environmental effects of the proposed activities. (CEQA Guideline Section 15002).

According to Calaveras, the requested authority to enter into a loan agreement and execute the loan documents does not have any significant adverse effect on the environment. Calaveras is an incumbent local exchange carrier with a statutorily granted facilities-based provider authority. Calaveras is aware and states in the Application that the utility will comply with all environmental permitting requirements applicable to the projects that it will undertake in conjunction with the proposed debt issue.

The Application, as amended, clarifies and specifies that the purpose of the loan is to generate funds to be used for plant improvements (including the required purchase of Class “B” stock of the RTB): 1) to replace existing switch with a modern switch; 2) to replace old outdated remote switches with modern remote switches; 3) to provide a pool of available funds for future expansion projects to meet increasing demand; and 4) to replace interim financing.

Specific project activities and new construction associated with a debt authority requires environmental review under CEQA. However, the Application, as amended indicates only a proposed debt issue without identifying any specific new construction. It is our understanding that Calaveras’ construction activities are currently unknown and therefore speculative in nature.

While we recognize the utility’s claim that environmental requirements are not applicable in this instance because no new construction or project can be identified, in no way should it be construed to constitute an implied or expressed waiver of applicable environmental regulations for any capital improvement undertaken by Calaveras relative to this decision. It is Calaveras’ responsibility to abide by and comply with

any applicable environmental regulations for any capital improvement undertaken relative to this decision.

Construction Budget

Calaveras' construction budgets for calendar years 2003 through 2005, shown as Exhibit C to the Application, are as follows:

	(\$ in 000)		
	2003	2004	2005
Land	0	0	0
Water Supply	0	0	0
Street Improvements	0	0	0
Distribution			
Improvements	3,930	2,330	600
Miscellaneous	0	0	0
Contingencies	0	0	0
New Business	0	0	0
Meters	0	0	0
Services	0	0	0
Main Replacements	0	0	0
Pump & Purifier	0	0	0
Office Equipment	0	0	0
Transportation Equipment	0	0	0
Other Equipment	160	160	100
Electric Plant	<u>0</u>	<u>0</u>	<u>0</u>
 Total	 <u>4,090</u>	 <u>2,490</u>	 <u>700</u>

We will not make a finding in this decision on the reasonableness of Calaveras' proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

Cash Requirements Forecast

Calaveras' cash requirements forecast for years 2003 through 2005 are summarized as follows:

	(\$ in 000)		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Funds for construction	4,090	2,490	700
Bonds, Notes retired	0	0	0
Preferred Shares retired	0	0	0
Refunds of advances	0	0	0
Taxes on advances & contributions	0	0	0
Short-term debt repaid	<u>0</u>	<u>0</u>	<u>0</u>
 Total Cash required	 <u>4,090</u>	 <u>2,490</u>	 <u>700</u>
 Estimated cash available from internal sources	 750	 800	 900
Issuance of common shares	0	0	0
Issuance of debt	0	0	0
Advances and contributions	0	0	0
Short-term borrowing	0	0	0
Changes in working capital	<u>0</u>	<u>0</u>	<u>0</u>
 Total Cash received	 750	 800	 900
 External financing ²	 <u>3,900</u>	 <u>2,300</u>	 <u>650</u>
 Total Cash available	 <u>4,650</u>	 <u>3,100</u>	 <u>1,550</u>

² External financing totals to \$6,850,000 for years 2003, 2004, and 2005. The balance of the \$7,006,750 RUS loan in the amount of \$156,750 will be drawn down sometime after the year 2005.

Calaveras' requirements for construction totals \$7,280,000 for years 2003 through 2005. This amount may be financed entirely with external debt.

Capital Ratios

Calaveras' capital ratios as of June 30, 2002, are shown below as recorded and as adjusted to give pro forma effect to the projected issuance of mortgage notes and forecasted increase in retained earnings:

	<u>Recorded</u>		<u>Adjustments</u>	<u>Proforma</u>	
Long-term debt	\$ 1,380,490	12.87%	\$6,850,000 ³	\$ 8,230,490	42.04%
Short-term debt	<u>0</u>	<u>0.00%</u>	<u>-</u>	<u>0</u>	<u>0.00%</u>
Subtotal	\$ 1,380,490	12.87%	\$6,850,000	\$ 8,230,490	42.04%
Preferred Stock	0	0.00%	-	0	0.00%
Common Equity	<u>9,345,813</u>	<u>87.13%</u>	<u>2,000,000⁴</u>	<u>11,345,813</u>	<u>57.96%</u>
Total Capitalization	<u>\$10,726,303</u>	<u>100.00%</u>	<u>\$8,850,000</u>	<u>\$19,576,303</u>	<u>100.00%</u>

Capital structures are normally subject to review in cost of capital or general case proceedings. We will not, therefore, make a finding in this decision on the reasonableness of the projected capital ratios for ratemaking purposes.

Use of Proceeds

The Application, as amended states that because of greater demand for higher grades of telephone service, Calaveras now requires funds for the improvement of its facilities. Calaveras proposes to use the proceeds of the debt to pay for the following improvements to plant (including the purchase, associated with the proposed financing, of shares of the Class

³ Based on a 3-year (2003, 2004, 2005) external cash requirements forecast of \$6,850,000.

⁴ Projected retained earnings for the years 2003 through 2005.

“B” stock of the RTB): 1) to replace Calaveras’ existing switch with a modern switch; 2) to replace old, outdated remote switches with modern remote switches; 3) to provide a pool of available RUS funds for future expansion projects to meet increasing demand; and 4) to replace interim financing with cheaper RUS funds from the pool of available funds.

According to the Application, the utility is not in a position and does not believe it to be prudent or in the best interest of subscribers to finance all of such a large program out of its current earnings or resources when below market rate interest loans are available from the RUS and the RTB

Pursuant to Pub. Util. Code § 818, we will approve Calaveras’ proposed financing.

Pursuant to Pub. Util. Code § 851, we will also allow Calaveras to encumber its property whenever such encumbrance serves to secure the financing authorized herein.

Pub. Util. Code § 817(d) provides that debt issues may be used for the discharge or lawful refunding of obligations.

Pub. Util. Code § 823(d) provides that no note payable at a period of not more than twelve months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

For purposes of this proceeding, and pursuant to PU Code § 823(d) we will permit Calaveras to replace short-term debt with the financing authority granted in this Decision.

Izetta C.R. Jackson is the assigned Examiner in this proceeding.

In Resolution (Res.) ALJ 176-3106 dated January 30, 2003, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3106.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. Calaveras, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. Calaveras needs external funds for the purposes set forth in the Application, as amended.
3. The proposed debt issue is for proper purposes and is not adverse to the public interest.
4. The RUS and the RTB loan arrangement provides needed capital for system improvements and is a prudent means of acquiring an estimated \$7,006,750 at below market rates.
5. The Commission does not by this decision determine that the construction budget and capital ratios presented herein are necessary or reasonable for purposes of setting rates.
6. Authorizing Calaveras to encumber utility assets as required to secure the loan is for proper purposes and is not adverse to the public interest.

7. Notice of the filing of the Application appeared on the Commission's Daily Calendar of January 28, 2003. Notice of the filing of the Amendment to Application appeared on the Commission's Daily Calendar of June 16, 2003. Notice of the filing of the Second Amendment to Application appeared on the Commission's Daily Calendar of July 25, 2003. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order that follows.
3. It is Calaveras' responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision.
4. Calaveras should pay the fee determined in accordance with Pub. Util. Code § 1904(b).
4. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Calaveras Telephone Company (Calaveras), upon terms and conditions substantially consistent with those set forth or contemplated in Application 03-01-022 (Application), as amended is authorized to enter into a Telephone Loan Contract Amendment with The United States of America, acting through the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) of a total sum not exceeding \$7,006,750.
2. Calaveras may execute and deliver the Mortgage Note and supplemental mortgages of the utility's properties on substantially the same terms and conditions as set forth in Exhibit C to the Application.
3. Calaveras shall file with the Commission's Audit and Compliance Branch (ACB) copies of the Telephone Loan Contract Amendment, the Mortgage Notes, and Supplemental Mortgages within thirty (30) days of execution.
4. Calaveras shall provide ACB a copy of the Environmental Impact Report and/or Notice of Determination for specific projects associated with this financing authority.
5. On or before the 25th day of each month, Calaveras shall file with the ACB the reports required by General Order Series 24.
6. The authority granted by this order shall become effective when Calaveras pays \$8,007⁵ as required by § 1904(b) of the Public Utilities Code.
7. The Application is granted as set forth above.

⁵ The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + (\$1 \times 6,006,750/1,000) = \$8,007$.

8. A.03-01-022 is closed.

This order is effective today.

Dated _____, at San Francisco, California.